Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 2 Agenda

Byron Sher, Chair
Sheila Kuehl
Bruce McPherson

Part 1

Monday, May 17, 2004
1:30 p.m.
Room 112

Resources—Environmental Protection—Public Safety—Energy

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Part I—Energy Agenda

3360 Energy Resources Conservation Development Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission, or CEC) is responsible for forecasting energy supply and demand, developing and implementing energy conservation measures, conducting energy-related research and development programs, and siting major power plants.

Governor's Budget. The Governor's budget proposes $355 million to support CEC in 2004-05. This is approximately 16 percent more than the level of expenditures estimated in the current year due to projected increases in utilization of the subsidies provided by the Renewable Resources program due to implementation of the Renewable Portfolio Standard. The large reduction in energy conservation expenditures is due to a one-time allocation of bond funds for energy efficiency projects in the current year.

Energy Resources Conservation and Development Commission
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Percent Change
Type of Expenditure:				
Regulatory and Planning	$26,183	$26,021	$26,933	4%
Energy Resources Conservation	34,954	53,986	22,106	-59%
Research and Development	170,672	233,638	313,152	34%
Administration	11,091	11,641	10,951	-6%
less distributed administration	*-11,091*	*-11,641*	*-10,951*	-
less loan repayments	*-7,502*	*-6,373*	*-7,074*	-
Total	**$224,307**	**$307,272**	**$355,117**	**16%**
Funding Source:				
General Fund	$250	$620	-	-
Special Funds	203,282	286,616	340,268	19%
Budget Act Total	*203,532*	*287,236*	*340,268*	*18%*
Reimbursements	6,209	8,495	5,745	-32%
Federal Funds	4,845	11,266	9,104	-19%
Total	**$214,586**	**$306,997**	**$355,117**	**16%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for CEC.

Energy Resources Conservation and Development Commission
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Technical Adjustment. Proposes to shift funding for two positions in the grants and loans office and one position in the accounting office from the Petroleum Violation Escrow Account to the Energy Resources Program Account and Energy Conservation Assistance Account, which is a more appropriate source of funding for these positions given changes in workload.	-	-	$0	-
Total	**$0**	**$0**	**$0**	**0**

1. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for CEC.

Energy Resources Conservation and Development Commission
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Positions
Renewable Portfolio Standard. Proposes to increase support from the Renewable Resources Trust Fund for certifying eligible renewable resources for participation in the Renewable Portfolio Standard.	-	$190	$190	2.0
Total	**$0**	**$190**	**$190**	**2.0**

Staff Recommendation. No issues have been raised with the administration's April finance letter for CEC. ***Staff recommends approving the finance letter.***

2. Reappropriation of PVEA Funds

Summary. The commission has requested the reappropriation of $925,000 in Petroleum Violation Escrow Account (PVEA) funds for allocation to the Alameda-Contra Costa Transit District (AC Transit) in support of their ongoing Fuel Cell Demonstration Program. These funds would be used to construct a permanent hydrogen fueling station. These funds were originally appropriated to the CEC in the Budget Act of 2000, and were encumbered into an agreement with AC Transit, however, contracting difficulties and project delays associated with the development of emerging and advanced hydrogen fueling technology have delayed the project beyond the life of the funds.

Governor's Budget. The administration was not aware of the need to reappropriate these funds at the time the budget proposals were being developed. The language proposed by the department is as follows:

> *3360- -Reappropriation, Energy Resources Conservation and Development Commission. $925,000 of the appropriation provided in the following citation is reappropriated for the purposes provided for in the appropriation, and shall be available for encumbrance and expenditure until June 30, 2005.*
>
> *(1) Item 3360-001-0853, Budget Act of 2000, for issuing a contract or grant to Alameda-Contra Costa Transit District (AC Transit) for the development and demonstration of a gaseous hydrogen fueling station on AC Transit property for their Fuel Cell Demonstration Program.*

Staff Recommendation. Staff recommends the Subcommittee ***approve the reappropriation*** for this project.

3. Extension of Energy Technologies Research, Development and Demonstration Account

Summary. The Commission has requested that the Energy Technologies Research, Development and Demonstration Account (ETRDDA) be extended beyond its current sunset date of January 1, 2005. This account contains PVEA funds that support two revolving loan programs (Small Business Energy Technology Loan Program and Agricultural Industry Energy Program). These programs do not have a sunset date and there are still funds available to continue to make loans to small businesses and the agricultural industry to purchase or install energy efficient equipment.

Governor's Budget. The administration was not aware of the need to extend this account at the time the budget proposals were being developed. The language proposed by the department is as follows:

> **Section 25630 of the Public Resources Code is amended to read:**
>
> 25630. (a) The commission shall establish a small business energy assistance low-interest revolving loan program to fund the purchase of equipment for alternative technology energy projects for California's small businesses.
>
> (b) ~~The loan program may use royalty agreements, as provided in Chapter 7.4 (commencing with Section 25645), to replenish program funds beyond the amount of loan repayments.~~ Loan repayments, interest, and royalties shall be deposited in the Energy Technologies Research, Development, and Demonstration Account. The interest rate shall be ~~determined as provided in subdivision (g) of Section 25647.~~ *based on surveys of existing financial markets and at rates not lower than the Pooled Money Investment Account. Notwithstanding the expiration of Public Resources Code Chapter 7.8 (commencing with Section 25680), the Controller shall continue to maintain within the General Fund the Energy Technologies Research, Development, and Demonstration Account established under Public Resources Code Section 25683.*
>
> **Section 25650 of the Public Resources Code is amended to read:**

25650. (a) All funds from loan repayments and interest that become due and payable for loans made by the commission pursuant to an agriculture energy assistance program shall be deposited in the Energy Technologies Research, Development, and Demonstration Account, and shall be available for loans and technical assistance pursuant to this section, upon appropriation in the Budget Act. Up to 20 percent of the annual appropriation may be available for technical assistance. *Notwithstanding the expiration of Public Resources Code Chapter 7.8 (commencing with Section 25680), the Controller shall continue to maintain within the General Fund the Energy Technologies Research, Development, and Demonstration Account established under Public Resources Code Section 25683.*

(b) Loans made pursuant to this section shall be for the purchase of equipment and services for agriculture energy efficiency and development demonstration projects, including, but not limited to, production of methane or ethanol, use of wind, photovoltaics, and other sources of energy for irrigation pumping, application of load management conservation techniques, improvements in water pumping and pressurization techniques, and conservation tillage techniques.

(c) The loans shall contain terms that provide for a repayment period of not more than seven years and for interest at a rate that is not less than 2 percent below the rate earned by moneys in the Pooled Money Investment Account.

Staff Recommendation. Staff recommends the Subcommittee ***adopt trailer bill language***, as outlined above, to extend the Energy Technologies Research, Development and Demonstration Account.

4. California Climate Action Registry

Background. The California Climate Action Registry was established by Chapter 1018, Statutes of 2000 (SB 1771, Sher) as a non-profit voluntary registry for greenhouse gas (GHG) emissions. The purpose of the Registry is to help companies and organizations with operations in the state to establish GHG emissions baselines against which any future GHG emission reduction requirements may be applied. The registry is also responsible for adopting standards for verifying emissions reductions, establishing emissions reduction goals, designing and implementing efficiency improvement plans, and maintaining a record of emissions reductions as measured against the baseline established by the registry.

In 2002, Chapter 200 (AB 1493, Pavley) was enacted by the Legislature to reduce GHG emissions from cars and light trucks and provides an opportunity for automobile manufacturers to take advantage of incentives from early action. The law will regulate GHG emissions in 2009, and encourages earlier reductions through the registry.

This year, the registry has written to the subcommittee requesting $200,000 to support the registry's activities in 2004-05. The funding will be used to develop new software capabilities for recording GHG emissions and to recruit more power industry participants to the registry. Approximately $200,000 from CEC's Public Interest Energy Research Development and Demonstration (PIER) Fund was provided to support the registry in the current year.

Staff Recommendation. The subcommittee may wish to adopt the following budget bill language to provide $200,000 from the PIER fund to support the registry.

> *3360-001-0381—Of the amount appropriated in this item, $200,000 shall be made available for grants to support the California Climate Action Registry program activities.*

5. Energy Resources Programs Account

Background. The Energy Resources Programs Account (ERPA) funds most of the commission's basic programs, general operations and staffing. Revenues from this account derive from a charge on the consumption of electricity by California ratepayers. Chapter 1033, Statutes of 2002 (AB 3009, Budget) enabled the commission to increase the ERPA surcharge to a capped amount of $0.0003 per kilowatt-hour (kWh) to cover budgetary expenditures. The ERPA fund is considered a General Fund fungible account and the *2003-04 Budget Act* transferred $5.75 million to the General Fund to help solve the state's budget problem.

Governor's Budget. The commission took action to raise the surcharge to the capped amount ($0.0003) effective January 1, 2004. The budget assumes that the surcharge will remain at the higher amount for the entire 2004 calendar year, but assumes a reduction in the surcharge to $0.0002 starting January 1, 2005. This increase has resulted in an $14.5 million projected balance in the ERPA fund at the end of the budget year. The fund balance would increase by $11 million if the commission did not reduce its surcharge starting January 1, 2005 as currently planned.

Staff Recommendation. Staff recommends that the Subcommittee ***transfer $12 million to the General Fund to help address the state's budget problem***. This will leave the ERPA fund with a 5 percent reserve (approximately $2.5 million). The Subcommittee may also wish to consider transferring an additional $11 million and requesting CEC to keep the ERPA surcharge at the higher level.

3860 Department of Water Resources (California Energy Resources Scheduling Division)

Background. The department's California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The budget proposes total expenditures of about $5.4 billion in 2004-05 for the CERS division of DWR. This is $1.4 billion, or 21 percent, below estimated expenditures in the current year, which reflects a reduction in the amount of electricity purchased under contract for the budget year, as well as lower prices on the electricity currently under contract.

Department of Water Resources
California Energy Resources Scheduling Division, Electric Power Fund
(Dollars in Thousands)

			Proposed for 2004-05	
Description	**Actual 2002-03**	**Estimated 2003-04**	**Amount**	**Percent Change**
Energy purchases	$5,129,257	$6,759,813	$5,367,133	-21%
Administration	46,802	54,488	47,627	-13%
Total	**$5,176,059**	**$6,814,301**	**$5,414,760**	**-21%**

Budget Change Proposals. No 2004-05 budget change proposals were submitted for the DWR CERS division.

1. April Finance Letter—Energy Related

Summary. The following is a summary of the energy-related budget amendments requested by the administration in the 2004-05 April finance letter for DWR.

Department of Water Resources
April Finance Letter - CERS Related, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Reim-bursements	Total
Williams Settlement. Proposes to reimburse DWR's costs associated with the development of two power generation projects that were the result of a settlement with Williams Energy.	-	-	489	489
Total	**$0**	**$0**	**$489**	**$489**

Staff Recommendation. No issues have been raised with the administration's April finance letter for the CERS division of DWR. ***Staff recommends approving the finance letter.***

2. CERS Administration Support

Background. The CERS division of DWR continues to manage billions of dollars of long-term electricity contracts signed during the electricity crisis. The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts. Despite this reduction in responsibilities, the department continues to rely heavily on expensive consulting contracts and personal service contracts. The Legislature adopted budget bill language in the 2003-04 Budget Act to direct the department to continue its efforts to reduce administrative costs of the division by replacing contractors with state employees. Supplemental report language was also adopted to require the department to update the Legislature on the status of this transition.

Governor's Budget. The Governor's budget proposes $47.6 million for administrative support of the CERS division. This is a slight reduction from the current year estimated expenditures due to a reduced level of pro rata expenditures. Therefore, actual support for CERS operations is about the same as estimated in the current year. The department has also budgeted a $2.5 million contingency for unanticipated costs, including potential data requests to support litigation.

Department of Water Resources
CERS Administration
(Dollars in Thousands)

			Proposed for 2004-05	
Description	**Actual 2002-03**	**Estimated 2003-04**	**Amount**	**Percent Change**
Salaries, benefits, and distributed administration	$7,636	$9,597	$9,235	-4%
Consulting companies	34,015	12,100	10,141	-16%
Personal service contracts	4,089	2,000	2,500	25%
Other operating expenses and equipment	1,062	2,922	2,443	-16%
Pro Rata	0	27,869	21,169	-24%
Contingency reserve	0	0	2,500	-
Total	**$46,802**	**$54,488**	**$47,988**	**-12%**

Supplemental Report Findings. The department submitted its supplemental report (due December 1, 2003) to staff in May 2004. This report indicated that the department is no longer pursuing a new personnel service classification with the Department of Personnel Administration. Instead the department is actively transitioning work from consulting companies to personal service contracts. The department indicates that the average personal service contract costs the state roughly one-third the hourly rate of the consulting companies.

Contingency Reserve. The report also indicates that the department has included a contingency reserve in case unexpected expenditures arise in the budget year. Extra funds have not been budgeted for a contingency reserve in the past and it is not clear what additional uncertainties the department is planning for in the budget year.

Staff Recommendation. Given the ongoing concerns related to the CERS division's over-reliance on expensive contracts. Staff recommends the Subcommittee ***reduce the contingency reserve by one-half*** (reduce CERS' budget by $1.25 million) and ***adopt budget bill language*** to require the department to notify the Legislature 30 days prior to entering new contracts for the contingency reserve funds.

3. Status of Contract Renegotiations—Informational Item

Summary. The department has been actively renegotiating the electricity contracts signed during the energy crisis. The department signed 56 contracts during the crisis at a projected cost of $42.5 billion. Since then, 34 of these contracts have been renegotiated with 18 entities for savings of approximately $6.34 billion. The current projected value of DWR's energy portfolio is $28.3 billion. The state continues to renegotiate the remaining contracts. **Appendix A** is a summary of the state's renegotiated electricity contracts.

8660 California Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's budget proposes $1.2 billion to support CPUC in 2004-05. This is a $74 million reduction from the current year due to lower expenditures in funds that support various universal service telecommunications programs.

California Public Utilities Commission
Governor's Budget Spending Totals
(Dollars in Thousands)

			Proposed for 2004-05	
	Actual 2002-03	**Estimated 2003-04**	**Amount**	**Percent Change**
Type of Expenditure:				
Regulation of Utilities	$359,059	$338,712	$333,177	-2%
Universal Service Telephone Programs	710,369	926,065	857,384	-7%
Regulation of Transportation	13,907	13,722	14,207	4%
Administration	14,926	17,832	17,207	-4%
less distributed administration	*-14,926*	*-17,832*	*-17,207*	-
Total	**$1,083,335**	**$1,278,499**	**$1,204,768**	**-6%**
Funding Source:				
General Fund	$0	$0	$0	-
Special Funds	1,068,415	1,265,009	1,191,069	-6%
Budget Act Total	*1,068,415*	*1,265,009*	*1,191,069*	*-6%*
Federal Funds	971	997	993	0%
Reimbursements	13,949	12,493	12,706	2%
Total	**$1,083,335**	**$1,278,499**	**$1,204,768**	**-6%**

Budget Change Proposals. The following is a summary of the 2004-05 budget change proposals for CPUC.

California Public Utilities Commission
Budget Change Proposals, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Facility Repairs. Proposes funding for special repair and replacement projects for the Edmund G. Brown Building in San Francisco that houses CPUC.	-	$435	$435	0.0
Staffing Universal Telecommunications Programs. Proposes to establish permanently 18 positions to support these programs. These CPUC started directly supporting these programs in 2002-03, and since there was no workload data to justify the level of support staff required to administer the programs the positions were originally requested on a limited term basis in the 2002-03 budget.	-	1,026	1,026	18.0
Total	**$0**	**$1,461**	**$1,461**	**18.0**

1. April Finance Letter

Summary. The following is a summary of the budget amendments requested by the administration in the 2004-05 April finance letter for CPUC.

California Public Utilities Commission
April Finance Letter, 2004-05
(Dollars in Thousands)

Description	General Fund	Special Funds	Total	Personnel Years
Universal Lifeline Telephone Service Program. Proposes to increase funding for this program to align spending authority with the CPUC's most recent estimates of estimated program expenditures for the budget year.	-	$11,263	$11,263	0.0
Total	**$0**	**$11,263**	**$11,263**	**0.0**

Staff Recommendation. No issues have been raised with the administration's April finance letter for CPUC. ***Staff recommends approving the finance letter.***

2. California Teleconnect Fund Program

Background. The CPUC administers six universal service telephone programs that seek to expand access to telecommunications services. It does so by subsidizing the cost of telephone services for certain people through surcharges applied to telephone customers' monthly bills for in-state services. One of these programs is the California Teleconnect Fund (CTF) program. This program provides discounts on telephone service, and other advanced telecommunication services that provide access to the Internet (such as digital subscriber line [commonly referred to as DSL] services) to schools, libraries, and qualifying hospitals and community-based organizations. Currently, the CTF program provides a 50 percent discount regardless of the particular qualifying service or recipient. Chapter 820, Statutes of 2003 (AB 855, Firebaugh), established the CTF program in statute, although CPUC has been managing a similar program that it established administratively in 1996.

The federal government has a similar program called the E-Rate program. This program provides discounts on the same services as the CTF, but also provides discounts on the purchase and installation of telecommunications hardware. The level of discount received through the E-Rate program is based on the schools participation in the free lunch program. California receives approximately $330 million annually from the federal E-Rate program.

Governor's Budget. The *2004-05 Governor's Budget* proposes expenditure of $5.3 million for the CTF program in the budget year. This is significantly less than has been provided in prior years for this program.

Budget Year Funding. The Analyst finds that the Governor's budget does not provide expenditure authority sufficient to cover all of the projected CTF program expenditures in the budget year. The commission has informed staff that it will need approximately $18 million in the budget year to cover all program expenditures in 2004-05. In the 2003-04 Budget Act $150 million was loaned from the CTF to the General Fund. The budget does not propose to repay this loan even though Chapter 820 requires that this loan be repaid when the CTF program needs the funds to meet program requirements. The Analyst finds that the Legislature has the following choices for providing additional funding to the commission to support the CTF program:

- Direct CPUC to raise the CTF surcharge (currently suspended). A 0.1 percent surcharge applied to intrastate telephone calls would yield approximately $20 million.
- Repay a portion of the General Fund loan, which would increase General Fund expenditures by about $12.7 million.

LAO Recommendation. The Analyst finds that the CTF program could be improved and makes the following recommendations relative to the CTF program:

- ***CTF Program Does Not Maximize Federal Funds.*** The CPUC does not require schools and libraries to participate in the federal E-Rate program as a condition of eligibility for the CTF program. This results in increased costs to the state's program and a loss of available federal funds. The Analyst recommends legislation that requires that eligible schools and libraries participate in the federal E-Rate program as a condition for participating in the CTF program.
- ***CTF Program More Effective if Discounts Targeted.*** Recent legislation has expressed legislative intent that a priority for the state's telecommunications policy is to assist in bridging the "digital divide." However, the current CTF program does not target its discounts and instead provides a 50 percent discount to all qualified participants. The federal E-Rate program provides discounts on a sliding scale based on participation in the free lunch program. Since the CTF discount is applied after the E-Rate discount the need-based targeting of the federal program is reduced, since more CTF funds are provided to schools with fewer students from low-income families. The Analyst recommends legislation that would require CPUC to adopt criteria for targeting discounts from the CTF program to low-income and rural individuals that are typically the most affected by digital divide issues.

- ***Program Funding Parameters Would Improve Legislative Oversight.*** There are no limits on the number of participants or level of subsidies awarded in the CTF program. Instead, CPUC is given broad authority to administer the CTF program, including the authority to raise the surcharge that supports this program to cover increased program costs. The Legislature does exercise spending control over the program through the annual budget appropriation. However, there is no legislative control over the surcharge rate or program revenues. The Analyst recommends legislation that sets a statutory cap on annual CTF program expenditures to improve legislative oversight of the program.

Staff Recommendation. Staff recommends the following:

(1) Increase expenditure authority from CTF by $12.7 million to cover all CTF program costs in 2004-05 using revenues from an increase in the CTF surcharge on telephone users.

(2) Adopt trailer bill language that limits the CTF subsidy only to the remaining portion of telecommunications bill after application of the federal E-Rate subsidy for eligible schools and libraries (regardless of whether they participate in E-Rate). Apply the federal need-based sliding scale to the Teleconnect discount for schools. Make these provisions effective July 1, 2005 to allow time for schools to apply to the E-Rate program and plan for potential reductions in CTF discounts.

(3) Adopt supplemental report language directing CPUC to report to the Legislature by February 1, 2005 with (a) an estimate of the program savings resulting from the adoption of the need-based sliding scale for schools and from applying the E-Rate discount prior to any CTF discount, (b) recommendations for alternative uses for CTF funds to most effectively address the Digital Divide, and (c) an estimate of the surcharge level needed to meet the needs of the CTF program.

8665 California Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to $5 billion in revenue bonds to finance these activities. Chapter 10x also directs that the operation of the authority sunset on January 1, 2007.

Governor's Budget. The budget proposes to eliminate CPA in the budget year. Specifically, the proposal would eliminate three positions and five contract positions. The budget provides $424,000 to CPA through September 30, 2004 for purposes of winding down the agency, including finishing remaining work and terminating existing contracts.

California Consumer Power and Conservation Financing Authority
Governor's Budget Spending Totals
(Dollars in Thousands)

	Actual 2002-03	Estimated 2003-04	Proposed for 2004-05 Amount	Proposed for 2004-05 Percent Change
Type of Expenditure:				
Administration	$3,232	$3,778	$424	-89%
Off-budget expenditures	3,761	75,057	0	-100%
Total	**$6,993**	**$78,835**	**$424**	**-99%**
Funding Source:				
Budget Act Total	*0*	*0*	*0*	-
CPA Fund	6,993	78,835	424	-99%
Total	**$6,993**	**$78,835**	**$424**	**-99%**

1. Future of CPA

Background. The CPA was established during the height of the energy crisis that started in 2000 with the broad charge of assuring a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. In order to meet these goals, CPA was authorized to purchase, lease, or build new power plants using its revenue bonding authority to supplement private and public sector power supplies, and was granted eminent domain powers. These significant powers reach beyond those of other state energy agencies. It was intended that CPA would be able to exercise these powers in the event that the market did not produce enough electricity to serve all of the state's needs.

In addition to these core powers, CPA was also charged with encouraging energy conservation and the use of renewable energy sources. It was also given the authority to finance natural gas transportation and storage projects recommended by the California Public Utilities Commission (CPUC), as well as to provide financing to retrofit old and inefficient power plants. Finally, CPA was also required to develop an energy resource investment plan for California.

Governor's Budget. The budget proposes to eliminate CPA in the budget year. The administration has indicated that the decision to eliminate CPA was based on a number of factors. These include findings that CPA has had limited success in fulfilling its statutory objectives and that CPA has not achieved financial self-sufficiency as intended when it was created. In addition, the administration is of the view that other state energy agencies and private entities already perform activities similar to that performed by CPA.

Specifically, the proposal would eliminate the authority's administrative budget ($3.4 million special funds). However, the budget also proposes to eliminate CPA's bonding authority (almost $5 billion remaining). Furthermore, the budget proposes terminating all of CPA's current work in progress. This work includes an initiative to install solar energy on state buildings and background work on financing several peak electricity generation projects and a base load power plant in the San Diego area. Finally, the budget proposal terminates CPA's Demand Reserves Partnership Program that provided 250 megawatts of energy conservation during the summer of 2003.

LAO Recommendation. The Analyst finds that the elimination of some of CPA's functions may be premature and provides the following options for retaining these functions:

(1) ***Option One: Retain CPA, But Only as a Self-Supporting Entity.*** This option would allow the state to continue to retain the authority to augment energy supplies if needed, until adequate incentives are in place to assure a sufficient energy supply to meet future demand. However, the Analyst thinks the role of CPA should be evaluated as policy changes continue to be made in the future.

(2) ***Option Two: Transfer Certain Functions to Other Existing Agencies.*** This options would transfer the bonding authority so that the state could retain its ability to finance power plants if needed. The CPA's bonding authority could be transferred to an existing financing authority, which has a consistent mission with CPA's bond financing authority (for example, the California Infrastructure Bank). Furthermore, The Analyst would also recommend transferring CPA's Demand Reserve Partnership Program to another entity so that it may continue to provide energy savings over the next several years (CPA's program currently has a contract to deliver energy savings that does not expire until 2007). This program could be transferred to another existing state agency involved in promoting energy conservation, such as CEC.

Staff Comments. Staff recognizes that CPA has not been able to carry out its mission due to market influences. However, since CPUC is still in the relatively early stages of implementing Chapter 835, Statutes of 2000 (AB 57, Wright) there is still uncertainty regarding whether this law will provide sufficient incentives to build new generation to meet the state's future electricity demands. Given this, staff agrees with the LAO that it is premature to eliminate CPA's functions.

The administration has indicated to staff that it is developing a more comprehensive proposal to reorganize the state's energy agencies. Staff thinks it would be more appropriate to evaluate the future of CPA and its functions in the context of this comprehensive plan.

Staff Recommendation. Staff recommends the Subcommittee ***adopt the Analyst's Option One to retain the CPA as a self-supporting agency***. This action would:
(1) Reject the administration's proposed trailer bill to eliminate CPA.
(2) Increase CPA's budget by $800,000 to cover reduced operations funded solely from CPA generated revenues.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created by Chapter 854, Statutes of 1996 (AB 1890, Brulte), which deregulated California's wholesale electricity industry. The board was created to oversee the California Independent System Operator (ISO), which manages the transmission grid serving most of California, and the Power Exchange (PX), which for a time was the marketplace in which all electricity in the state was bought and sold. The EOB was also given very broad authority over ensuring reliability of the state's supply of electricity.

Governor's Budget. The Governor's budget proposes $3.6 million to support EOB. This reflects the reversion of a one-time General Fund appropriation and reductions as a result of the Control Section 4.10.

Electricity Oversight Board
Governor's Budget Spending Totals
(Dollars in Thousands)

			Proposed for 2004-05	
	Actual 2002-03	Estimated 2003-04	Amount	Percent Change
Type of Expenditure:				
Administration	$3,456	$3,894	$3,637	-7%
Total	**$3,456**	**$3,894**	**$3,637**	**-7%**
Funding Source:				
General Fund	-	$240	-	-
Special Funds	3,455	3,655	3,637	0%
Budget Act Total	*3,455*	*3,895*	*3,637*	*-7%*
Total	**$3,455**	**$3,895**	**$3,637**	**-7%**

Budget Change Proposals. No 2004-05 budget change proposals were submitted for EOB.

1. Future of Board

Background. Central to the original role of the EOB was overseeing the activities of the ISO and the PX and determining the composition of the governing boards of these two organizations. However, among the many developments associated with the 2001 energy crisis was the bankruptcy of the PX in January, and the replacement of the EOB-appointed ISO stakeholder board with a board of gubernatorial appointees. Thus, the EOB's original duties have drastically changed.

The EOB has reported to staff that it is presently involved in the following activities:

- ***Market Monitoring.*** This includes market investigation, market rate complaints, and market redesign proceedings.

- ***Monitoring ISO Operations.*** This includes evaluating the operations of ISO administered markets, operations of the transmission system, transmission planning, and the reasonableness of the costs of ISO services.
- ***FERC Representation.*** This includes representing California policy and consumer interests regarding wholesale markets and transmission system operations at the Federal Energy Regulatory Commission.
- ***Power Exchange Oversight.*** The EOB continues to represent California's public interests related to the wind-up of the California PX. (More than $1 billion in outstanding claims remain.)

Board Structure Obsolete. The EOB's board presently has only one voting member and has not met in over a year. It has been regular practice for several years that board staff reports directly to the Governor as opposed to the board members. It is not clear that a board structure is needed to carry out the current activities of EOB.

Attorney General Has Big Role in Resolving Energy Crisis Litigation. The Attorney General (AG) has been very involved in the litigation at FERC and in other venues related to market behavior during the energy crisis. The AG has also been central to the contract renegotiations between the Department of Water Resources and the electricity generators. The EOB and CPUC have also been involved in these activities. Specifically, EOB has been the lead in the state's refund proceedings at FERC.

Legislative Oversight. As shown above, EOB has indicated to staff that it is currently working on several important issues. These issues include oversight of ISO activities and the reasonableness of the ISO's costs to California consumers. As well as, the susceptibility of California's wholesale electricity market to future failures and the impacts of FERC's market design decisions on the state's market. These issues are of interest to the Legislature as they continue to develop the state's future energy policy. However, under current practice there has been no mechanism to communicate the findings of EOB's work on these issues to the Legislature. This has reduced legislative oversight in this area.

Staff Comments. There has been concern regarding the number of separate boards and commissions that currently implement the state's energy policy. The administration has indicated to staff that it is developing a comprehensive proposal to reorganize the state's energy agencies. Staff believes that the EOB's core activities are important to continue, but does not believe a separate board structure is needed to carry out these functions effectively. Furthermore, staff believes that litigation related to the energy crisis could be consolidated at the AG's office. This would give EOB staff more time to focus on issues at FERC and the ISO that affect the current and future wholesale electricity market in California.

Staff Recommendation. Staff recommends the Subcommittee take the following actions:

(1) ***Eliminate the board structure*** and transfer EOB litigation related to the energy crisis to the AG, except for those cases when the AG has a direct conflict. Transfer EOB staff to the Governor's Office of Planning and Research until a more comprehensive evaluation of all the state's energy related agencies has been performed.

(2) ***Adopt supplemental report language*** to require EOB staff to report to the Legislature on: (a) the reasonableness of costs to California consumers of ISO operations and (b) the susceptibility of California's wholesale electricity market to future failures and recommendations to protect the public from wholesale market failures.

Appendix A—Summary of Renegotiated Electricity Contracts

Summary of Renegotiated Power Purchase Agreements

April 2004

Table of Contents

Contract Overview

- **Number of Original agreements: 56**
- **Original portfolio projected cost: $42.5 billion**
- **Agreements Renegotiated: 34**
- **Number of original counter-parties: 28 –** Allegheny, Allliance Colton, BPA, CalPeak, Calpine, Capitol, Clearwood, Constellation, High Desert, Coral, Dynegy, El Paso, GWF, Intercom, PG&E Energy Trading, PacifiCorp, Pinnacle West, Mirant, Morgan Stanley, Primary Power (Imperial Valley), PX Block Forward, Santa Cruz, Sempra, Soledad, Sunrise, Whitewater Energy, Williams, Wellhead.
- **Number of counter-parties with renegotiated contracts: 18** -- Calpine, High Desert, Constellation, Whitewater Energy, Capitol Power, CalPeak, GWF, Colton Power, Mountain View Power Partners (formerly PG&E Trading contract), Williams, Clearwood, Wellhead, County of Santa Cruz, Sunrise Power, Goldman Sachs (formerly Allegheny contract), Soledad, El Paso, Morgan Stanley.
- **Cost reductions through renegotiations: Approximately $6.34 billion**
- **Agreements expired: 14**
- **Agreements terminated: 2**
- **Number of agreements remaining (from original 56): 40**
- **Current Projected portfolio cost: $28.3 billion**

Summary Results from Renegotiations

Summary Results - cont.

Of the 22 counterparties CDWR has contracts with, only four have standing contracts under their original terms.

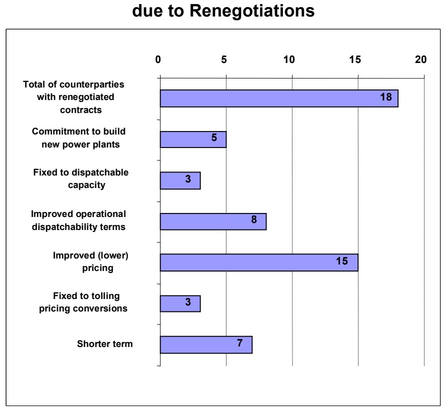
	Number of Counterparties with Contracts under Renegotiated Terms	Savings ($' Millions)	Counterparties with Contract under Original Terms	Counterparties with Expired Contracts	Contracts Terminated
1	Calpine	$2,900	Coral	BPA	Capitol Power[3]
2&3	High Desert / Constellation Power[1]	$560	Dynegy	Constellation Power[1]	Santa Cruz County[4]
4	Shell Wind Energy[2] (formerly Whitewater Energy Corp)	$38	PacifiCorp	Intercom	
5	Capitol Power[3]	$6.3	Sempra	Mirant[5]	
6	CalPeak	$71		Pinnacle West	
7	Soledad	$1.7		Primary Power	
8	GWF	$215		PX Block Forward	
9	Colton Power (formerly Alliance contract)	$14.6			
10	Mountain View Power Partners, LLC (formerly PG&E ET Wind contract)	$2.8			
11	Williams	$1,373			
12	Clearwood	$28			
13	Wellhead	$8.2			
14	Santa Cruz County[4]	$1.8			
15	Sunrise	$121			
16	Goldman Sachs Group (formerly Allegheny contract)	$836			
17	El Paso	$125			
18	Morgan Stanley	$40			
	Total Savings ($'s Millions)	**$6,342**			

Notes:
(1) Constellation Power Systems contract, Product 1 expired Jun-'03 and Product 2 expired Oct-'03; (2) Shell Wind Energy consists of two wind projects, formerly Whitewater Hill and Cabazon. ; (3) Capitol Power was terminated in Nov '02; (4) Santa Cruz County was terminated in early Jan. '04; (5) Mirant contract is in FERC settlement proceedings.

Summary Results - cont.

Renegotiations have resulted in improved reliability and contract savings of $6.3 billion (a 15% reduction from the initial projection of $42.5 billion). Improved reliability is the result of securing generator commitment to build new power plants. Savings are based on improved contract terms, such as lower pricing and shorter terms, and increased dispatchability.

CDWR Improvement in Contract Terms due to Renegotiations



Summary of Renegotiated Contracts

Summary of Renegotiated Contracts – cont.

(1-4) **Calpine Energy -- Savings, $2.9 billion**

DWR has four agreements with Calpine. Agreements 1 & 2 provide base load power while agreements 3 and 4 provide peaking power that can be dispatched to meet hourly and daily changes in consumer demand. The following are highlights:

- *Agreement 1:* Reduced from 10 years to 8 years saving $1.03 billion. Adds provisions that allow DWR to acquire additional dispatchable power for 2002 and 2003.
- *Agreement 2:* Reduced from 10 years to 8 years saving $1.1 billion. Requires Calpine to build four new plants – Metcalf, Otay Mesa, East Altamont and one other to be chosen by DWR among Teayawa, Inland Empire, and San Joaquin. Adds flexibility and additional dispatchable power for 2002 and 2003. Reduces megawatt hour price from $61 to $59.60, saving an additional $80 million.
- *Agreement 3:* Reduced from 20 years to 10 years saving $800 million. Requires Calpine to build 11 peaker plants (all have been completed as of mid 2003). Limits Calpine's ability to substitute power. Adds gas-tolling agreement reducing megawatt hour cost from a fixed $73 to approximately $45 (depending on natural gas prices).
- *Agreement 4:* Requires Calpine to build a plant in San Jose, Ca. Limits Calpine's ability to substitute power. Adds flexibility by allowing DWR to schedule 4,000 hours of energy on a day ahead or hour ahead basis with 2,000 hours schedulable on less than an hour ahead basis. In addition, the Department can schedule up to 1,000 hours with as little as 15 minutes notice under certain circumstances.

Summary of Renegotiated Contracts – cont.

(5-6) High Desert/Constellation – Savings, $560 million

- Eight-year, three-month contract with Constellation subsidiary High Desert Power Plant LLC
- Reduced 6 months, saving the State $155 million
- Price per megawatt hour drops from a fixed $58 to a fixed capacity payment and an energy price based on actual fuel costs times the plant's heat rate. The estimated decrease in the average megawatt hour cost is expected to be more than 15 percent.
- DWR no longer required to take energy around the clock in amounts unrelated to consumer needs, resulting in savings of roughly $405 million.
- Signed 4/22/02

(7-8) Whitewater Energy, Savings $38 million

Cabazon: Signed 4/22/02

- 41 MW wind, Savings $11 million
- Reduced from 12 years to 11 years 6 months
- Reduced cost from $60 MWh to $54 MWh for all units (62 units)
- Original cost was $81.2 million

Whitewater Hill

- 61.5 MW wind, Savings, $27 million
- Reduced from 12 years to 11 years 6 months
- First amendment signed 4/22/02 reduced cost from $60 MWh to $54 MWh for units on-line before 8/31/02, or $40 MWh for units on-line after 8/31/02
- Original cost was $123 million

Summary of Renegotiated Contracts – cont.

(9) Capitol Power (15MW biomass) – Savings, $6.3 million

- Reduced from 5 years to 4 years,6 months
- Price per megawatt hour drops from $89 to $87
- New contract cost is $46.3 million
- Signed 4/22/02

TERMINATED – 11/15/02

(10-13) CalPeak Power – Savings, $71 million

- Reduces number of peaker plants from seven to six (terminates Mission Bay plant) saving $58 million
- Relocates Midway plant from south path to north path to relieve transmission constraints
- Midway project shortened by one year saving $5 million
- Reduced capacity payments by a total $750,000 per year for 10 years, resulting in $7.5 million savings
- Total cost is $332 million
- Signed 5/2/02
- Terminated Lodi plant 6/13/03 for failure to meet COD – Cost savings $52 million.

14) GWF Energy – Savings, $215 million

- Total cost is $776 million
- Remains a 10-year, 340 MW agreement (two 88 MW plants and one 164 MW plant)
- Improves dispatch notice from two to three hours to 30 minutes
- Reduces capacity payments by $65 million from $665 million
- Reduces the amount of energy the Department must take, saving an additional $150 million
- Signed 8/27/02

Summary of Renegotiated Contracts – cont.

(15) Soledad – Savings, $1.7 million

- 13 MW renewable Biomass, NP 15
- Reduces contract prices from $82 MWh in 2002 and $84 in 2003-2006 to annual cost of service adjustment with a cap of $79.90 for all years
- No substitution
- Contract cost is now $31.3 million

(16) Colton Power LP – Savings, $14.6 million

- Lowers capacity payment by $14.6 million
- Remains an 8-year, 80 MW peaker contract
- Total cost is now $143 million
- Signed 9/20/002

(17) Mountain View Power Partners LLC – Savings $2.8 million

(formerly PG&E Energy Trading Contract)

- Reduces cost from $58.50 per MWh to $57
- Remains a 10-year, 66 MW wind contract
- Total contract cost is now $107 million
- Signed 9/20/02

Summary of Renegotiated Contracts – cont.

(18-21) Williams – Savings, $1.373 billion

- 7x24 -- $62.5 MWh – 40/200 MW reduced from 8 years to 5 years (savings $1.27 billion)
- 6x16 -- $87 MWh – 150/450 MW, Added 8 years (increase $177 million)
- 6x16 -- $70 MWh – 50 MW – 3 year to 8 year (savings $175 million)
- 6x16 -- $62.5 – 500 MW – Eliminated 8 years (savings $1.242 billion)
- Avoided cost of must take energy = $2.510 billion
- New agreement – Dispatchable, $140 KW-yr – 350 / 1200 MW, (cost $1.137 billion)
- Signed 11/11/02

(22) Clearwood Electric Company LLC – Savings $28 million

- Geothermal 25 MW
- Reduced from $140 million to $112 million
- 10 years to 8 years, 2005 to 2012
- $67.40 MWh – no change
- Signed 11/20/02

(23-25) Wellhead Power LLC – Savings $8.2 million

- Three 10-year agreements
- 118 MW total – dispatchable
- $109.51 KW/year cost (lowest in portfolio)
- Improve reliability
- Signed 12/20/02

Summary of Renegotiated Contracts – cont.

(26) County of Santa Cruz – Savings $1.8 million

- Buena Vista Landfill Gas project
- 3 MW – new plant in Watsonville
- Cost now $7.2 million
- 4 year term, down from five years originally
- Signed 12/20/02

TERMINATED – 12/31/03

(27-28) Sunrise Power Company LLC -- Savings $121 million

- 560 MW
- Cost reduced from $1.8 billion to $1.753 billion
- Capacity payment reduced 5% or $44 million
- One year Sunrise extension option substituted for 6-month fix – saving $76 million
- Signed 12/31/02

(29-31) Goldman Sachs Group (formerly Allegheny contract) – Savings $836 million

- 10 year deal (savings is for remaining 8 years of contract)
- Original cost was $4.2 billion, now $3.4 billion
- Off-Peak prices reduced from $61 to $60 MWh in 2004; $59 MWh in 2005; and $58 MWh from 2006-2011
- Volumes reduced from 1,000 mw in 2005-2011 to 750 mw in 2005 and 800 mw from 2006-2011
- Improves reliability and flexibility
- Adds termination rights for non-deliveries, anti-gaming provisions
- State can assign contract to credit-worthy utility
- Signed 6/10/03

Summary of Renegotiated Contracts – cont.

(32-33) El Paso Merchant Energy L.P. – Savings $125 million

- Contract length is from Feb. 2001 to Dec. 31, 2005
- Original Cost of contract is $295 million
- CERS will also receive cash & cash equivalence (company stock) totaling approximately $360 million
- Savings will be reflected in CERS' revenue requirement to lower ratepayer cost
- Signed 6/26/03

(34) Morgan Stanley Capital Group – Savings $40 million

- Saves $40 million from original cost of $209 million
- Reduces MWh price from $95 to $81
- Reduces MW from 50 to 40 in 2003; to 35 MW in 2004/05
- Option to buy 30,000 MMBTU of natural gas – enough for 260 MW for 16 hours a day for 3 years
- Signed on 7/11//03

Expired Agreements

Expired Agreements – cont.

- **Agreements expired: 14**
  - **(1) Allegheny** -- 250 MW, peak power – expired 9/31/01
  - **(2) Goldman Sach's** (formerly Allegheny) – 150 MW, 7x24 – expired 12/31/03 (One remaining agreement with Goldman Sach's)

  Cost: $130 million

  - **(3-4) BPA** Base/Exchange – expired 12/31/01

  Cost: $10.4 million

  - **(5) Dynegy** -- 1000 MW, peak power – exp. 12/31/01 (cost $402 million)
  - **(6) Dynegy** – 200 MW, Peak power – expired 12/31/01 (cost $70 million) (Dynegy has a continuing contract with 4 separate products)

  Cost: $472 million

  - **(7) Pinnacle West** 100 MW, off-peak power - expired 9/30/01 (cost $20 million)
  - **(8) Pinnacle West** 100 MW off peak power - expired 9/30/01 (cost $34 million)

  Cost: $56 million

Expired Agreements – cont.

- **(9) PX Block Forward**, 125 MW, NP 15 - expired 12/31/01 (Cost $140 million)
- **(10) PX Block Forward**, 450 MW, SP 15 - expired 12/31/01 (Cost $210 million) - PX Block Forward contracts completely expired

Cost: $350 million

- **(11) Mirant** – 500 MW, NP 15, 6x16, must take – expired 12/31/02

Cost: $590 million

- **(12) Intercom** – 200 MW, NP 15, 6x16, must take – expired 8/31/2003

Cost $73.7 million

- **(13) Constellation** – 200 MW, SP15, 6X16, must take - expired 10/31/03

Cost $347 million

- **(14) Imperial Valley (Primary Power**) – 16 MW, 7x24 – expired 12/31/03

Cost $34 million

Terminated Contracts

Terminated Contracts – cont.

- **Contracts terminated: 2**
  - **(1) Capitol Power**, 15 MW, biomass, renegotiated 4/22/02, terminated 11/15/02 for failure to meet major construction milestones; missed COD date

    Cost $47.8 million

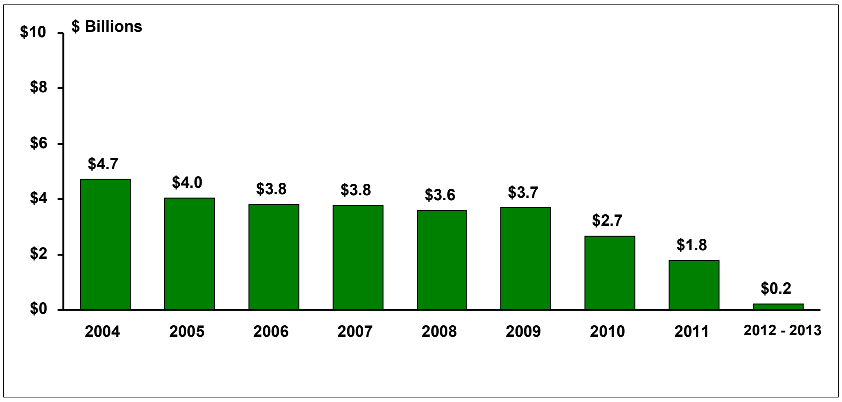
  - **(2) County of Santa Cruz**, 3 MW, biomass, renegotiated 12/20/02, terminated 1/02/04 for failure to meet required construction milestones, missed COD date

    Cost $7.2 million

Long-Term Contracts Portfolio

Long-Term Contracts Portfolio – cont.

The remaining cost for the portfolio of contracts, from 2004 through 2013, is approximately $28.3 billion dollars (totals exclude surplus energy sales, bond charges, reserves, and other costs)

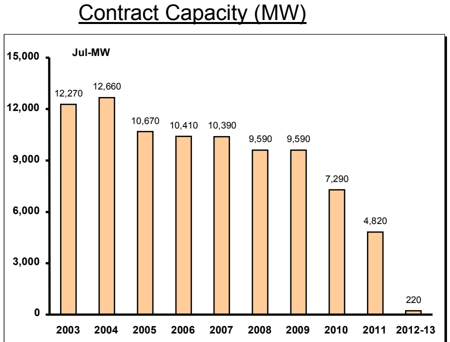


(*) Annual projections may vary due to updates to gas price forecasts, contract utilization, and other assumptions. **Excludes surplus energy sales, bond charges, reserves, and other costs)**

Long-Term Contracts Portfolio – Cont.

The long-term contracts portfolio peaks in 2004 at 12,660 MW's, remains above 10,000 MW's from 2005 through 2007, and then significantly drops off after 2009

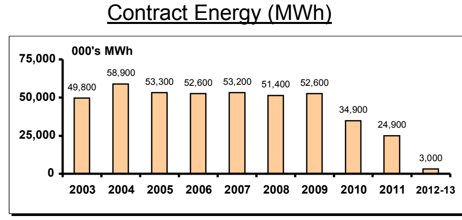
Contract Capacity (MW)



Notes:

Includes all renegotiated contracts to-date. Wind projects have been de-rated and includes an additional 1,000 MW system-contingent option in Dynegy contract (contract expires end of 2004).

Contract Energy (MWh)

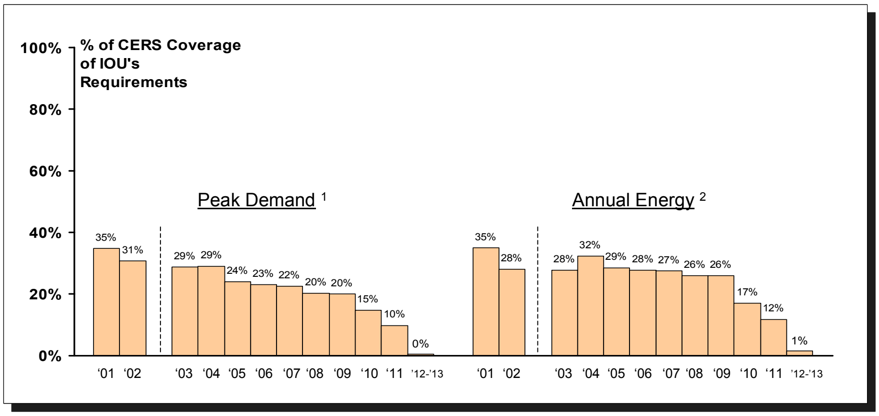


	% of Annual Energy									
	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12-'13
Must-Take	82%	87%	85%	86%	85%	82%	80%	69%	76%	39%
Dispatchable	16%	12%	13%	13%	14%	16%	18%	29%	22%	46%
Renewable	1%	1%	1%	1%	1%	1%	1%	2%	2%	15%

(%'s may not add to 100% due to rounding)

Long-Term Contracts Portfolio – cont.

In 2001, CERS covered 35% of the three utilities peak demand and energy requirements. By 2010, the remaining long-term contracts will only cover approximately 15% of the utilities requirements



Notes:

- For 2001 through 2003, percentage based on MW's scheduled by CERS and CAISO peak demand. PG&E, SCE, and SDG&E primarily account for CAISO total demand. For 2004 and beyond, percentage based on MW"s under contract and 2% annual escalation of '03 peak demand.
- For 2001 and 2002, percentage based on CERS recorded and energy deliveries to utility customers as reported in utilities financial statements. For 2003 and beyond percentage based on total contract deliveries (excluding surplus sales) and 2% annual escalation of '02 total energy requirements of the three utilities.

Long-Term Contracts Portfolio – cont.

Expiration dates of the remaining long-term contracts portfolio

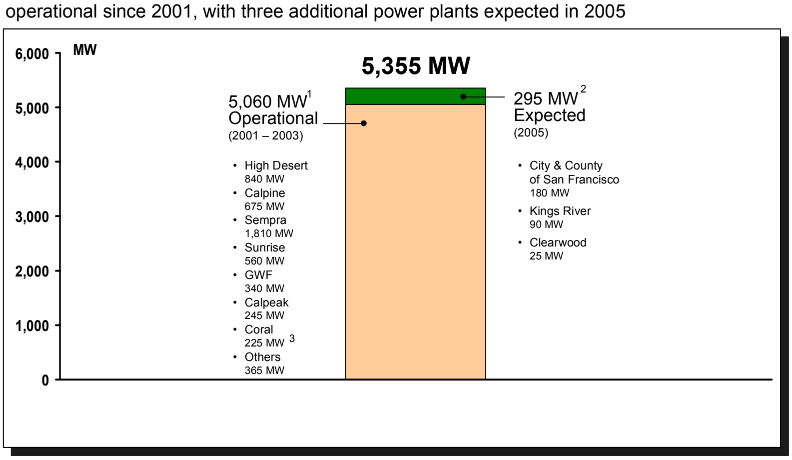
Year of Expiration (Year-end unless otherwise noted)										
2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Constellation Power (Prod 1 expired Jun-'03, Prod 2 expired Oct-'03) **Goldman Sachs Group** (NP-15 product) **Intercom** (Expired Aug-'03) **Primary Power**	**Dynegy**	**Calpine** (San Jose) **El Paso** **Morgan Stanley**	**Soledad** (Oct-'06)	**Williams** (Product A)		**Calpine 1&2**	**Colton Power** (Oct'-10) **Williams** (Product B,C,D, & Gas Supply Contract)	**Calpeak(s)** (2 projects Oct-'11, 3 projects Dec-'11) **Calpine 3** (Jul'-11) **Goldman Sachs Group** (SP-15 Product) **GWF** (Phase 1 & 2) **High Desert** (Mar-'11) **Mountain View** (Sept-'11) **Pacificorp** (Jun-'11) **Sempra** (Sept-'11) **Wellhead(s)** (Oct-'11)	**Clearwood** **Coral** (Jun-'12) **GWF Ph3** (Oct-'12) **Sunrise** (Jun-'12)	**Shell Wind Energy**
	Contract MW's Expiring * (non-coincident)									
970	2,100	360	10	200	0	2,000	1,450	4,640	1,300	100

(*) MW's shown were available during all or part of the calendar year that will not be available the following year. Contract MW's expiring are non-coincident and not cumulative due to expiration date and annual MW's may vary. For Dynegy contract, includes 1,000 MW system-contingent option.

New Power Plants Supported by CDWR Long-Term Contracts

New Power Plants – Cont.

Supporting CDWR contracts, 36 new power plants totaling over 5,000 megawatts have become operational since 2001, with three additional power plants expected in 2005



Notes:
- Includes 1,225 MW of operational out-of-state projects built by Sempra (Mesquite Ph-1 and Mexicali).
- Does not include other planned California projects (3,385 MW from Calpine and 500 MW from Sempra). Also, does not include other planned out-of-state projects (1,275 MW from Sempra and 500 MW from Pacificorp).
- Other projects include: Colton Power, Mountain View, Shell Wind Energy, and Wellhead.